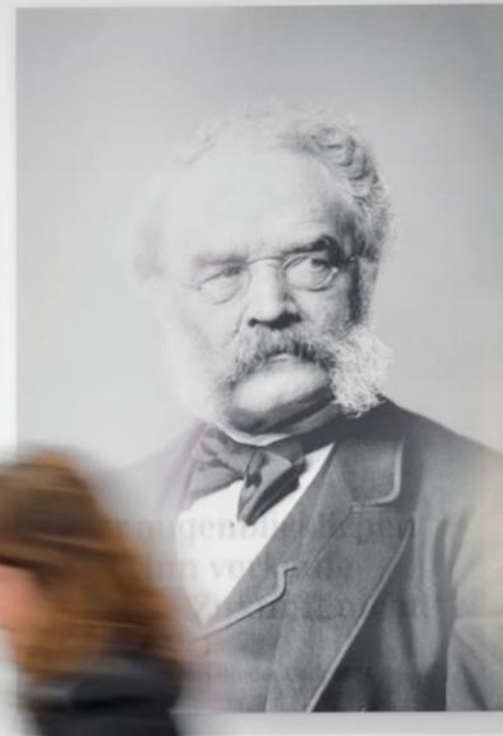
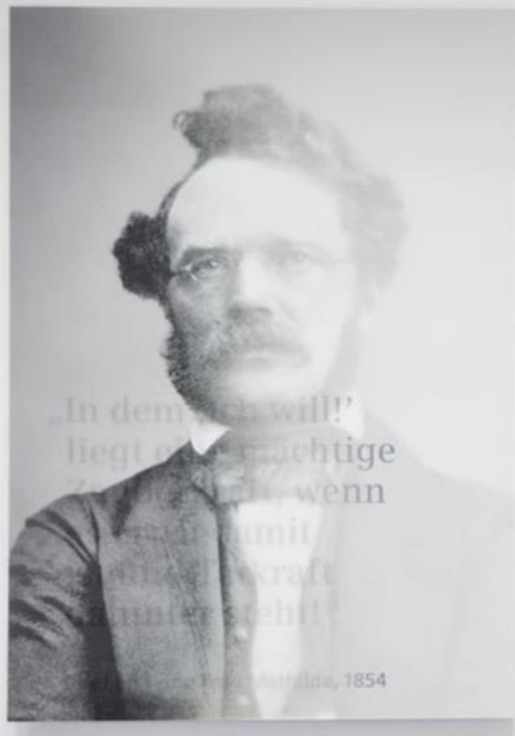


Could the Future of Job Evaluation Be None at All? Going Level-Less at Siemens

Steven P. Seltz, Mario Chlebowy – Siemens AG

May 22nd, 2018



170 years of Siemens

Global presence



Americas

Revenue	€23.5 billion	28%
Employees	76,000	20%

Germany

Revenue	€11.1 billion	13%
Employees	118,000	31%

Europe (excluding Germany), CIS, Africa, Middle East

Revenue	€32.2 billion	39%
Employees	113,000	30%

Asia, Australia

Revenue	€16.2 billion	19%
Employees	70,000	19%

Energy

Revenue 42%	Siemens Gamesa Renewable Energy
	Power and Gas
	Power Generation Services
	Energy Management

Industry

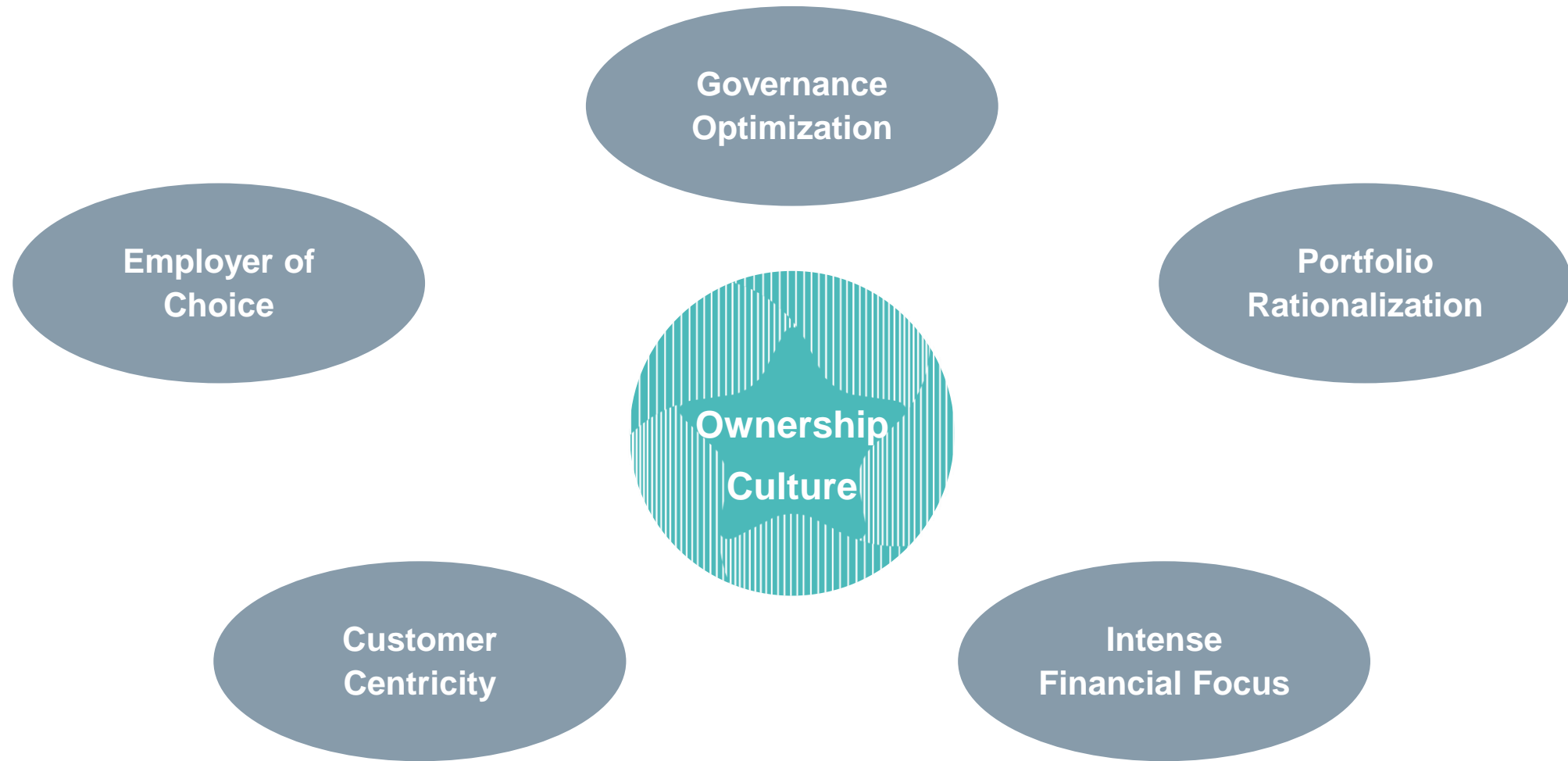
Revenue 42%	Building Technologies
	Mobility
	Digital Factory
	Process Industries and Drives

Healthcare

Revenue 16%	Siemens Healthineers
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Vision 2020

Change of mindset, behavior & strategy to drive success



How can HR support these changes?

Why do we need a new approach?

Yesterday

The system to level and compensate our leaders was considered to be:

- **conventional / hierarchical**
- **time-consuming**
- **Complex**
- **lacking in flexibility and transparency**

Tomorrow

With Vision 2020, we want to transform our company. We need to:

- **become much quicker and more adaptable**
- **be closer to our businesses and markets**
- **embrace a new and less hierarchical leadership culture**



**The old system doesn't fit our needs today – and won't do so in the future.
We need to embrace a new approach to help us fulfill our Vision.**

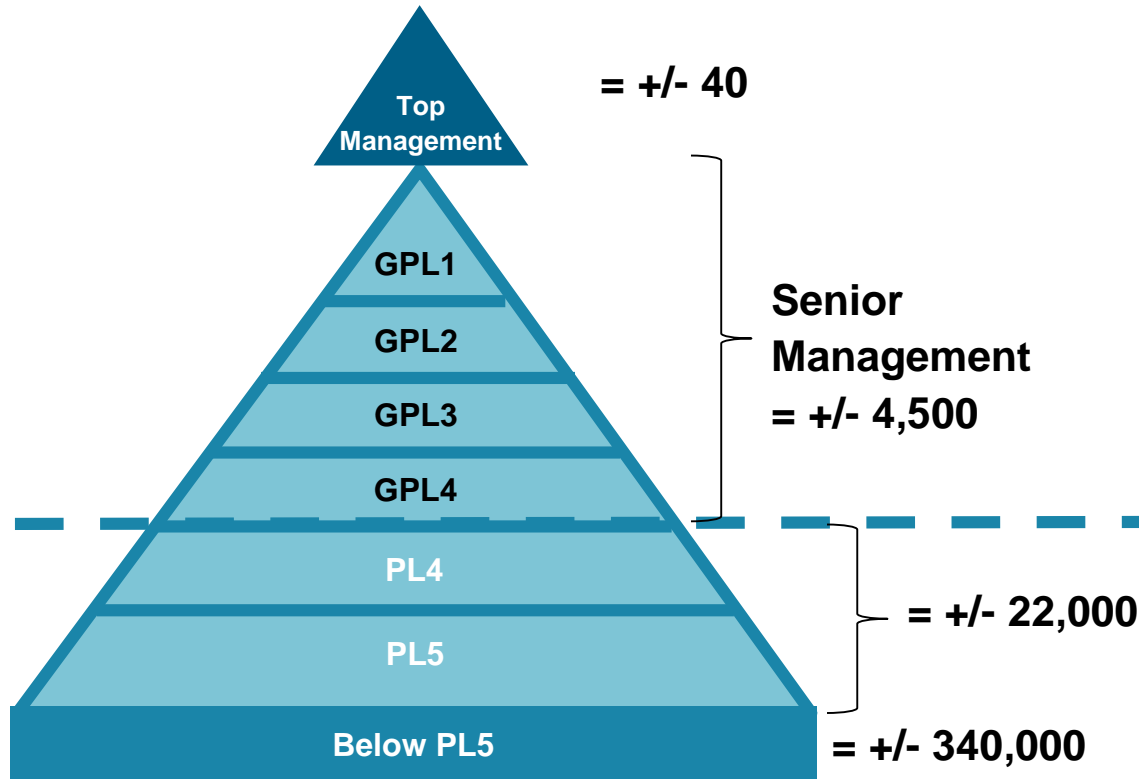
Historically, we embraced a traditional global grading structure:

“GPLs” (global position levels)

A good idea (?) that turned into a hub for processes, rules and regulations

SIEMENS

Ingenuity for life

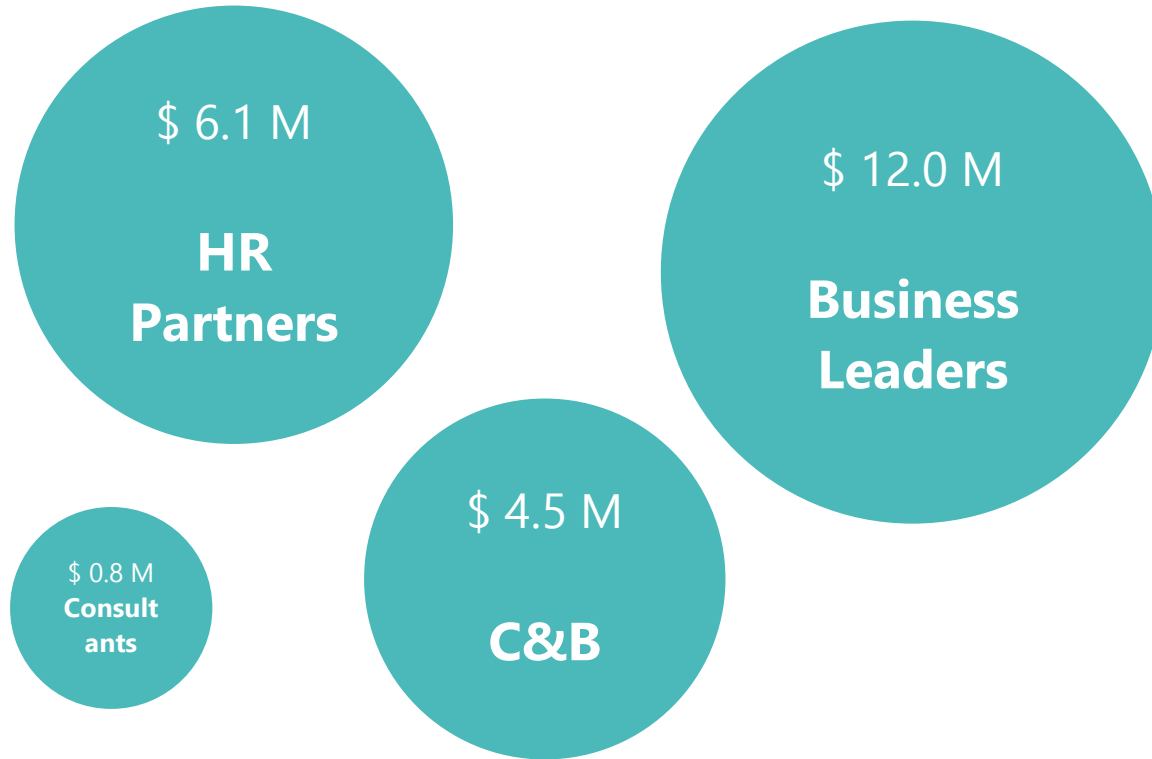


Rigidly linked to various entitlements:

- Pay Bands
- Annual STI target %
- Annual Equity Grants
- Pension contributions
- Office space
- Car
- Parking
- Travel benefits
- Invitation to Global Leadership Meeting
- etc.

The time and effort we spent on position evaluation – was it worth it ? **SIEMENS**

Ingenuity for life



- Highly complex, matrixed organization creates difficulties in understanding influence scope/volume
- Continually evolving organization – non-stop mergers/acquisitions/ divestitures
- Frequent reorgs - both in regions and within businesses
- No consistent understanding of job responsibilities on all sides
- Zero appetite for downgrades

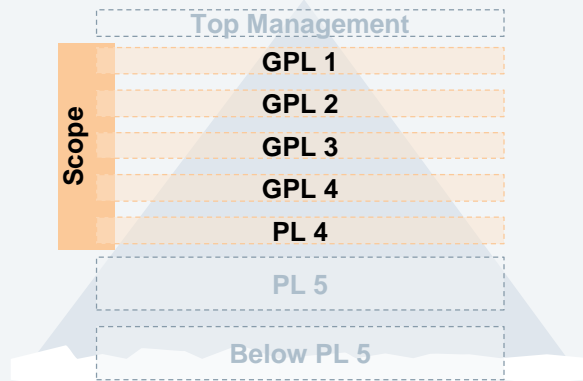
Estimated cost over 5 year period:
\$ 23.4 M



Result:
Constant MUTUAL frustration

“Revamp Position Evaluation” – an evolutionary approach towards simplification and creating more flexibility

Current (Global) Position Levels



New “Siemens Levels”



- Reduced number of levels
- Job slotting
- Faster decision-making, business ownership

Decoupling



- Greater Pay Mix flexibility, broader pay bands based on market
- Detach (“de-couple”) programs/policies and benefits from levels, wherever possible
- Reinforce that **Siemens Levels** are not a career badge

Let's play a little game !

**Convince your CEO:
We need to maintain
global grades
because....**

Consistency across HR programs

Career planning

Ease of administration

Flexibility for business transactions
(M&A)

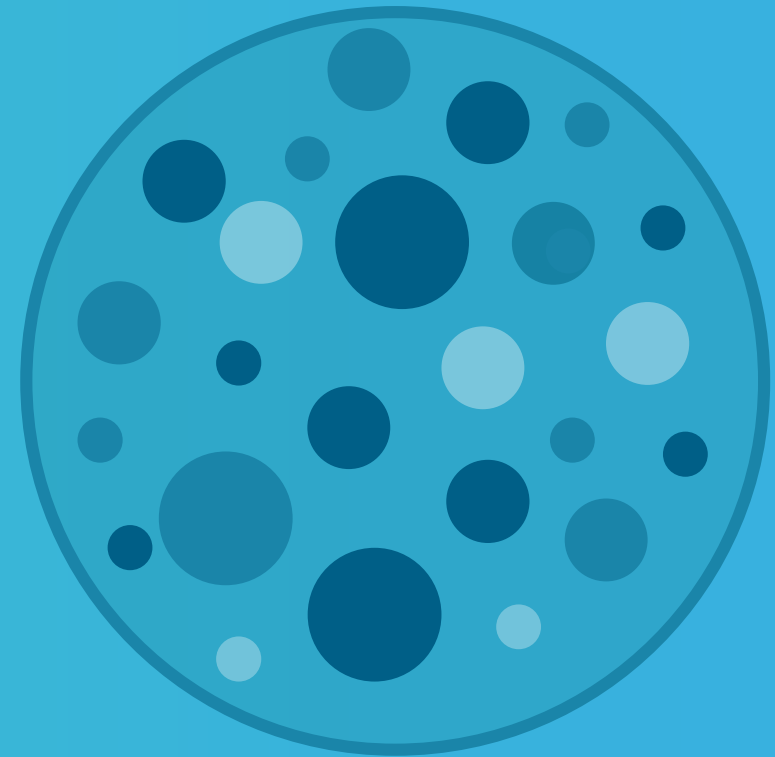
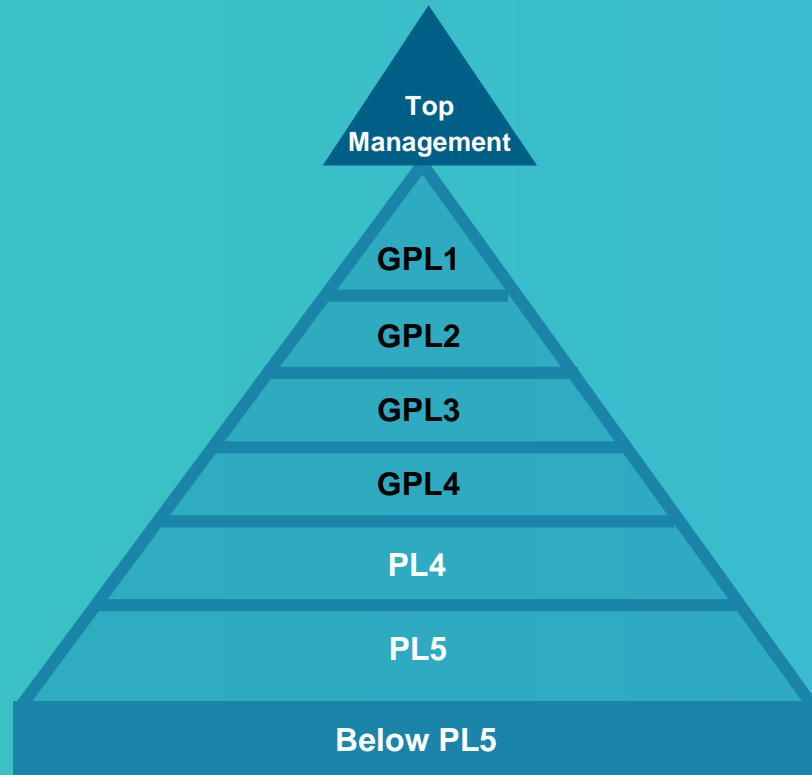
Market competitiveness

Ultimately, people want hierarchy...

Not buying it...

We decided to take our approach much further...

Creating a “level-less” Siemens



From levels

to individuals

Motivations for “Level-less” are sound, but decision represents a paradigm shift for Siemens

Opportunities of a “level-less” Siemens are obvious:

- ✓ Aligns with **ownership culture** principles
- ✓ **Enhances career flexibility**
- ✓ **Makes Siemens more competitive** in job market via **greater flexibility**

But...

- **Profound mindset and culture shift** for traditional, hierarchical Siemens
- **Reduced transparency**
- **“Market intelligence”** even more critical
- **Controlling costs** could be challenging

Going “level-less” won’t work because it:

...has never been done before

...will cause inflation of levels and salaries

...will result in complete organizational chaos

...is just nuts

But...

Is this indeed the case...?

We're solving the puzzle of 'level-less' – step-by-step, piece-by-piece



Important! We will continue to identify a “Senior Management” group

SIEMENS

Ingenuity for life

- *Based on simple guidance related to both the position and the individual*

- **Eliminate complex, centrally governed point factor approach**
- Replaced by a simple “**yes/no**” decision - guided by established criteria
- **Decision by the business**, supported by HR
- Some degree of global consistency, but with **flexibility of interpretation**

Related to the position (“WHAT”)

- Visible and significant **impact**
- Decision-making **autonomy**
- Focus on mid-/**long-term thinking**
- Managing **conflicting targets** and uncertainty
- **Understanding and influencing**

Related to the individual (“HOW”)

Based on our “**picture of a leader**”:

- Respect
- Focus
- Initiative and execution
- Be bold, decisive and courageous
- Siemens matters
- Motivate and engage

Important! Improved Market Intelligence is essential

Market Intelligence = accurately **assessing our competitive marketplace(s)**, and reflecting competitive realities in our programs

Increased focus on an **external perspective** means more and better data, as well as subject matter competence to analyze and interpret



Center Of Expertise (COE) to provide a **consistent approach and delivery**

A **global partnership with an external service provider (Mercer)** to supplement our internal specialized resources

So... What's been our experience to-date?

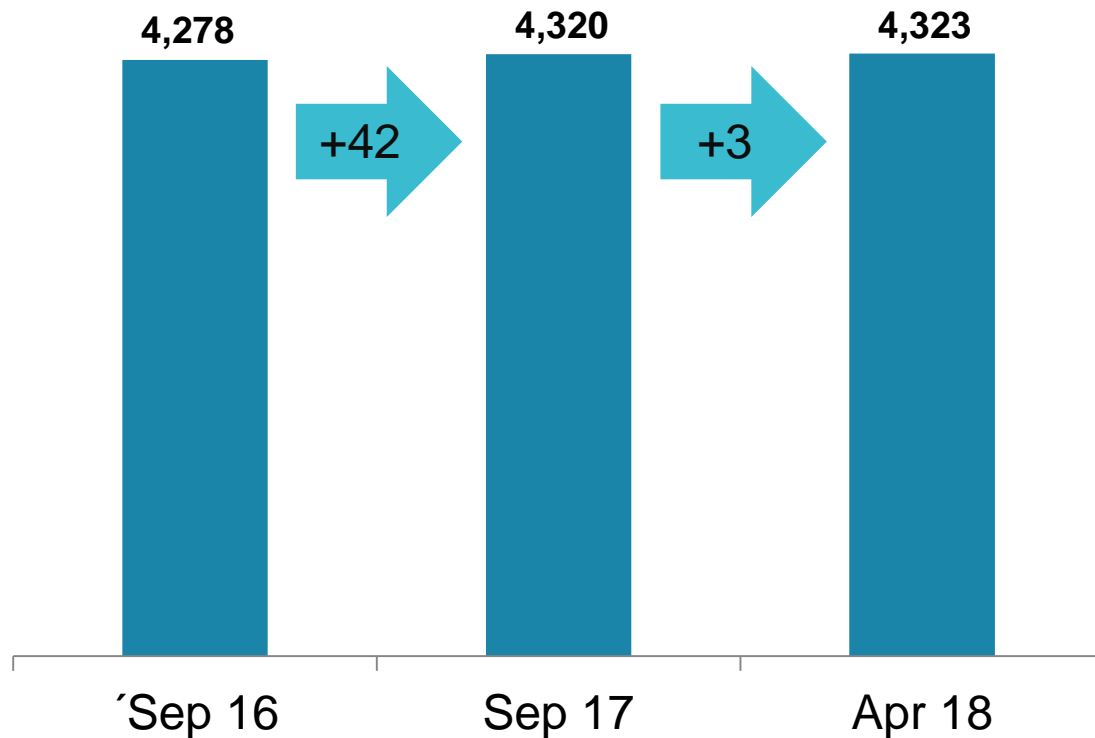
Level inflation not yet !

Cost inflation doesn't seem to be the case, but maybe a little...?

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Ingenuity for life

of Senior Managers (global)



Total Target Cash

Y-O-Y increase
(2018 vs. 2017)

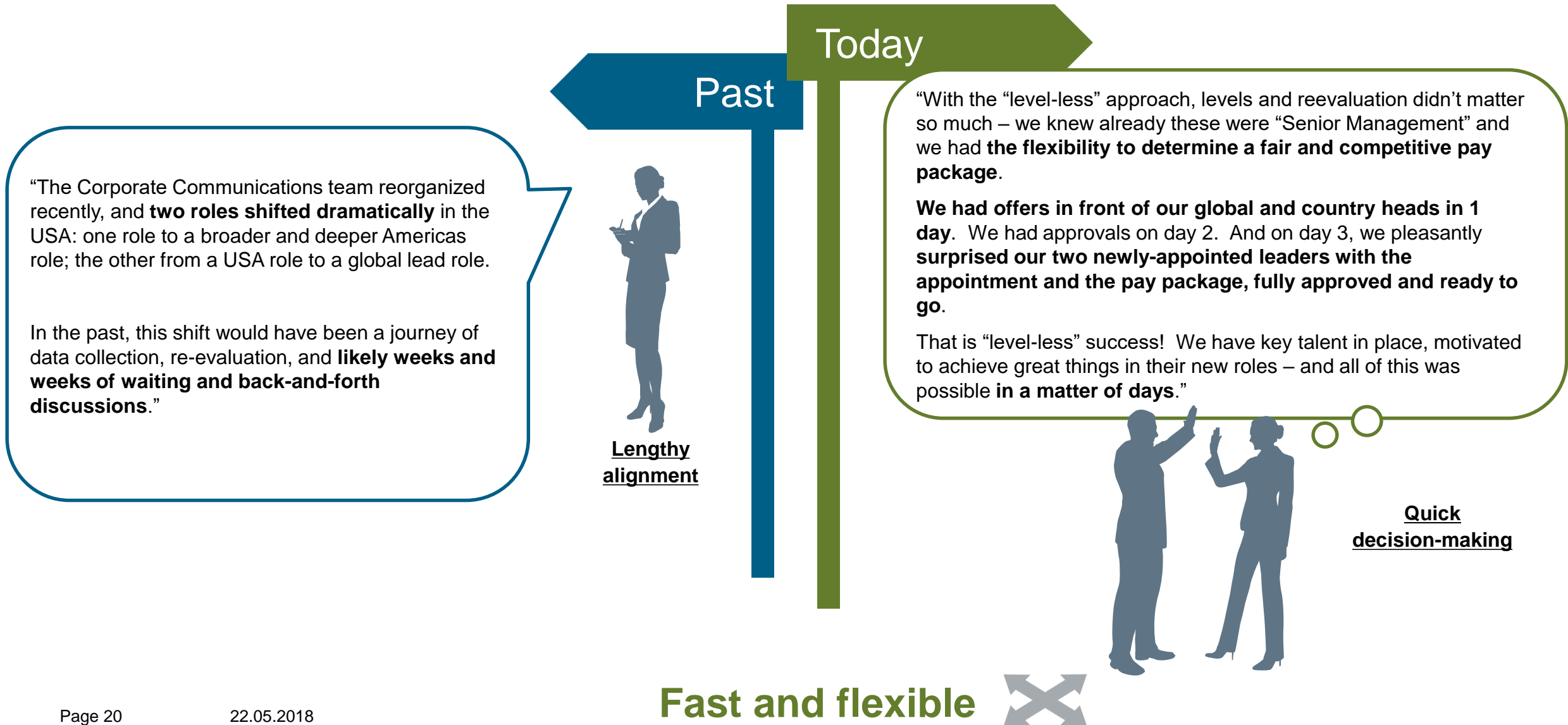
≈ +3.5%

What our business leaders are saying.....

- Initially, very positive
- Early testimonials (video / live via webcast)
- Overall – “deafening silence”




What our HR Leaders are saying...




What our employees are saying...glass (half) full

"Absolutely fantastic! **Brilliant move** and one that is **modern, forward thinking** and absolutely right for the fast organization we need to build. Absolutely the right message for me to give to my 500 plus employees. **The best I have heard from HR for years.**"




"One very spontaneous reaction:
Thumbs up, very good!


My appreciation for the courage of you and the board to adjust an already started process and go the road of some bigger uncertainty (but also **much more potential for the future**)."



"Congratulations on your courageous decision to be **leading the trend** instead of following the market. I am convinced that will be **more flexible** in selecting and finding the right candidates for the position, without the GPL system."




"This is the kind of discussion that **engages and energizes me.** Particularly for **how bold it is at changing the landscape**, and at recognizing that we are moving into uncharted territory, with all the pitfalls that may come along the way. It is an open invitation, a dare, to be **innovative.** Fantastic."




What our employees are saying...glass (half) empty


"In the meantime, a circular has been released to state that the BSAV (pension) commitment will be frozen on the current %-level for each individual and all new senior managers will only get 11%. **How does that fit to NOT being a cost-cutting initiative ?**




"The session yesterday was a bit disappointing. No real news and a lot of open questions. **Being agile is essential** in doing software development **but not in implementing new HR processes of this dimension.'**



"Level-less can be a great chance for our competitiveness in VUCA-world. Nevertheless I think GPL are only one aspect – **what are our plans to flatten our hierarchy?** There are still 9-11 levels between our CEO and a blue-collar"



"In simple terms, we will have to prove every day that we are worth our compensation. **I am pretty sure that putting more pressure on us is an important objective** of level-less. I do not have any issue with that. I would appreciate, however, if your communication would clearly address this objective."



We've already achieved several results:



Flexible and simple guidance to support identification/appointment of Senior Managers



No longer a “one size fits all” pay structure rigidly based on level, e.g., pay-mix (STI targets) that align more closely with market practice(s)



Stock awards that are more variable/flexible BUT allocation guidance proving more challenging



Further simplification of annual incentive design



Modifications to local rewards and benefits programs

What could still go wrong ?

- **Over time, salaries/costs inflate**
- **Shadow structures**
- **Managers won't take ownership**
- **Our knowledge of positions fades**
- **M&A makes structure more desirable/necessary**
- **Employees demand more structure**

So what's it going to be ?

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Ingenuity for life



.....the verdict is still out !

